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ABSTRACT

Changes in production systems have altered the interdependence between workers and management. New patterns of interdependence brought new responses, e.g., workers formed unions, and management turned to the human relations movement to secure voluntary employee cooperation. When voluntary compliance proved inadequate, collective bargaining and arbitration emerged. In the 1970's, low productivity spurred the quality of work movement, an effort to move from coercion of employees to employee cooperation. Parallel changes in patterns of interdependence evolved between business and society. Similar to labor-management relations, new patterns of business-society interdependence demonstrated the limits of voluntary cooperation and the necessity of coercion. Although government maintained a third-party role in labor-management disputes, it sought an advocacy role on behalf of society in business-society disputes. Federal regulations proliferated, and private sector political involvement designed to protect business interests grew accordingly. Now government must maintain a third-party status in business-society relations if it is to provide the framework for accommodation. Private institutions, applying the principles of collective bargaining, could be created to manage business-society relations. Both business and society must learn to exercise self-discipline and "privatize" coercion when forming acceptable norms of association without government interference. (NRB)

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# NORMS GOVERNING CORPORATE BEHAVIOR:

## an alternative to markets and to administration*

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Social expectations regarding business behavior are confusing, changing, and often inconsistent. Times have changed since businesses were expected by most people to act on the sole behalf of their owners or shareholders. This view was supported by the belief that the welfare of the public is best served through competition in a free marketplace, a view which required managers to maximize profits within the law. This perspective still finds many influential supporters; however, until perhaps very recently, there has been an increasingly visible contingent dedicated to the proposition that profit must not be the sole criterion governing the allocation of corporate resources.[1] Implicit in these formulations was the belief that the markets alone no longer suffice to adequately channel corporate behavior in the public interest. The tide of federal, state and local government regulation attested to the fact that such views had considerable credibility among government officials and the public at large. Accordingly, many, such as General Motors Chairman Thomas Murphy (1976), felt that "...public sentiment (was) clearly against big business," and that "the clock (was) running out on free enterprise (1973:17, XIX)."[2]

This was not the first time that expectations defining proper and improper business behavior underwent significant change. Recent events suggest that the pendulum is swinging back once again. During the last half century there has been a no less pervasive change in attitudes regarding labor management relations within the workplace. Before the coming of the factory system, markets provided a more potent means for managing production than they do today. The individualistic competitive spirit of that time gave way to the necessities associated with large-scale collective production. Perhaps the most influential designer of the modern factory system, Frederick Taylor observed, "In the past, the man has been first; in the future, the system must be first."[3] John D. Rockefeller himself declared that "individualism (had) gone, never to return."[4] The editors of Fortune saw such changes as inevitable, given the realities of interdependent collective production characteristic of the modern factory system.

> The key to industrialization was not the independence but interdependence; no individual was self-sufficient...Dominating this was the modern corporation...A community is created and through it the individual finds a higher expression of himself."[5]

Changing expectations defining appropriate relationships between business and society have much in common with changes which defined--and are still defining--how employee-employer relationships should be managed. Several themes are visible in both movements. Changing methods and the increasing size of production systems substantially altered the degree of interdependence between workers and managers on the one hand and between businesses and the communities in which they operate on the other. Initial attempts to manage the new interdependencies stressed voluntary compliance and cooperation. This strategy proved to be inadequate in the case of labor relations, as unions mounted credible strike threats and management acquiesced to grievance arbitration. Voluntarism also is likely to be inadequate for managing emerging interdependencies between business and society. Until very recently, at least, regulation has been forcibly encroaching on what had been areas of exclusive managerial prerogative.

There are also important differences between these two movements. While both initially stressed voluntarism, found it wanting, and generated means for the administration of coercion, the management of labor relations developed ways to "privatize" coercion through collective bargaining and the arbitration process. Government legislation provides the framework through which accommodation is realized. Government, however, has not maintained--or even sought to achieve--a third-party status in the management of business-society relations. It has sought an advocacy role supporting--and even formulating--society's claims against business interests. This also happened in the history of labor relations; although, in this case, state and federal action was more frequently directed in support of rather than in opposition to what were then managerial prerogatives. Such action proved to be inadequate. It succeeded neither in protecting managerial interests nor in making workers or managers

more considerate of each others problems and concerns. If anything, it exacerbated tensions and prolonged the inevitable accommodation.

Our thesis in this paper, simply put, is that the most effective role for government involves providing the institutional framework through which accommodations can be made. Governmental advocacy did not and does not help resolve labor-management disputes. If the parallel we are drawing is appropriate, therefore, the trend in the management of business-society relations may be -- or, perhaps, has been -- a costly and avoidable error.

In this paper we attempt to detail the reasons why an advocacy role for government involvement has been and will continue to be ineffective. We begin by describing the limits of voluntary cooperation and the necessity of coercion, informed both by the history of labor relations and by recent developments in business-society relations. We describe how both workers and managers generate counter-norms, norms of non-compliance, which effectively blunt efforts to undermine their positions. These norms are common in the workplace, and, as recent events indicate, they are emerging to coordinate managerial resistance to government initiatives across a broad range of issues. We end our discussion by suggesting an alternative to the policy specifying greater government involvement in the private sector. Our proposal is preliminary. The problems it addresses are complex. The solutions we propose can create other--perhaps more costly--problems. However, we feel we must expand the range of alternatives currently being discussed. Our aim is to assist in the search for ways to reduce the costs associated with coming to the inevitable accommodation between private and public interests, and we believe that institutions developed for managing labor-management relationships provide at least a starting point for such a search.

## EMERGING PATTERNS OF ACCOMMODATION BETWEEN LABOR AND MANAGEMENT

As the modern factory system replaced home production, markets through which producers exchanged goods or services for money in the pre-factory putting-out system

gave way to rules, regulations, and managerial directives designed to coordinate and control the activities of newly interdependent workers. As a consequence, workers, steeped in an individualistic competitive set of values, found themselves culturally ill-equipped to deal with the realities of large scale production systems.[6]

New patterns of interdependence brought new responses. Rather than producing and being rewarded on the basis of their own efforts, workers found themselves bound by complex webs of interdependence. Everyone had to do their part in order for anyone to be productive. The rules and directives designed to manage this interdependence frequently were updated to increase productivity. Speedups often were not accompanied by increased compensation. Workers, however, soon learned that their source of power in collective production systems lay in cooperative efforts designed to reduce their vulnerability. As Ginzberg and Berg note,

> The concentration of ever larger numbers of workers under one industrial roof; the application of scientific management to the process of production; the general ruthlessness of policies affecting employees, all operated as a spur and a goad to the organization efforts of workers who learned that through pooling their strength they might be able to cushion and moderate some of the harshness...[7]

Unions, of course, were the most visible outcomes of this response. Less formally, however, unofficial group norms restricting productivity became commonplace.[8]

## Initial Responses to the Emergence of Collective Production Systems: The Human Relations Movement

Originating in the 1930s, the human relations movement may be seen as a managerially-oriented response to the problem of securing voluntary employee cooperation in collective production systems. Chester Barnard argued that contractual relations between employee and employer were insufficient for obtaining the degree of ccoperation such systems required. What was required was, first, a closer identification between the needs of both employees and organizations and, second, norms which lie beyond surveillance and contractual sanction, but which encourage behavior consistent with the organization's needs.[9]

Markets alone had proven to be inadequate for managing collective production. The rules and directives which replaced them were being effectively resisted. Managers were expected to maximize productivity, yet to do this they required the cooperation of subordinates who frequently imposed their own versions of what constituted "a fair day's work." Moreover, "rate busters" who produced more than the informal norm prescribed could be sanctioned by their peers. They were simply one cog in the web of interdependencies which characterized the new work systems. Materials or information they needed to do their work could be withheld by others. The fact that they now worked in close proximity with their mates reinforced the effectiveness of social rewards and punishments. To the extent that employees formed closely-knit cohesive social relationships, productivity norms were particularly effective.[10] It became clear, therefore, that another strategy was required. As Barnard pointed out, the difference between an effective and ineffective organization often lay in the extent to which the organization could secure willing voluntary compliance to the needs of the organization. Forced compliance to imposed rules and directives, it was argued, would not work. What was needed was a new way to integrate the informal social organization and the needs of organizations for productivity and efficiency.

Human relationists took it upon themselves to design systems in which employees would, when necessary, subordinate their individual interests to those of the interdependent work group. They called upon managers to experiment with schemes intended to include employees and work groups in the goal-setting and rule-making process. Such participation, it was felt, would result in greater commitment to the rules and in a better alignment between informal work norms and organizationally acceptable procedures. For this, human relationists were criticized for elevating the group above the individual.[11] They were not, however, the pioneers of a more collectivist ideology. The real pioneers were those who had earlier designed the collective production systems.

Human relationists often did not recognize or, perhaps, appreciate the difficulties associated with aligning the interests of employees, work groups, and organizational goals.[12] However, differences in employee, work group, and corporate interests proved to be difficult to overcome. Tension was inevitable between individual interests and those of the group formed to achieve benefits for its members.[13] Each participant, recognizing that he or she will secure the result regardless of how much effort he or she puts in so long as the others contribute, will seek to minimize their contribution in the expectation of realizing a more favorable effort to reward ratio. Since every member of the group may be expected to do the same, some form of coercion is required if collective goods are to be realized.[14] Means for managing conflict as well as accommodation, therefore, were required for effectively managing the complex interdependencies generated by systems of collective production.

Collective Bargaining and Emerging Norms of Association

Norms of association provide legitimacy for the use of coersion in the interest of securing collective goods. A fundamental norm of association, the norm of reciprocity, states that those who receive benefits should reciprocate by providing contributions.[15] Simply put, those who provide receive, and no one should get something for nothing. Those who seek to benefit without contributing may legitimately be punished or coerced into contributing. Contributions, then, often cannot be left solely to the voluntary choice of the participants. Human association often requires the application of coercion, and it requires effective norms of association to provide legitimacy for such applications.

Norms of association have emerged to help manage the increasingly complex interdependencies of modern production systems. The coercive leverage was supplied when unions achieved the capacity to issue credible strike threats. Management accepted grievance arbitration in exchange for pledges not to strike, and effective norms of association were worked out--and are still being worked out--through the arbitration

process. For example, arbitrators have held that (1) the contract does not reserve for management all rights save those explicitly conceded. (2) Employees cannot engage in those activities which clearly inhibit attainment of organizational activities. (3) Off-work activities are beyond management control, unless they are clearly detrimental to the enterprise. And (4) Seniority is a legitimate basis for claiming exemption from disciplinary actions. These are evolving implicit rules, backed up by often binding arbitration.[16]

These norms of association are not limited to unionized plants. Managers who are not constrained by a union contract often are very sensitive to emerging norms specifying fair and equitable treatment precisely to avoid unionization. Norms of association, then, have emerged to govern the more problemmatic aspects of labor-management relations. To the extent that the interests of the organization and those of employees diverge and employees can mount credible threats to strike, management often has had little recourse but to accept such norms as the only means for securing the needed cooperation.

From Coercion to Cooperation: The Quality of Work Movement

In the early seventies a number of people were becoming disillusioned with the ability of traditional labor-management relations and the collective bargaining process to secure the degree of cooperation required by effective and efficient production systems. Productivity per labor hour had leveled off after nearly twenty-five years of consistent increases. The President established a Commission on Productivity and charged its chairman, C. Jackson Greyson, with determining methods for increasing labor productivity as a means for fighting inflation. The committee determined that one of the reasons for low productivity lay in the inability to secure employee commitment and cooperation. To secure such cooperation, it was argued, ways would have to be found to increase employee involvement in decision-making and in the quality of life they experienced at work.[17]

Accordingly, a quality of work life program was established within the Commission. In 1974 this program separated from the Commission and established its own organization, founded by Ted Mills, formerly a special assistant to Greyson. Mills' organization, initially called The National Center for the Quality of Work Life but later changed to The National Quality of Work Center, set up several experiments in labor-management cooperation.[18] The design used by the National Quality of Work Center to facilitate greater labor-management cooperation is complex. It involves the establishment of a joint labor-management committee at the plant level. This committee is composed of equal numbers of local labor and plant management representatives; however, every effort is made to encourage equal participation and to avoid the introduction of traditional adversary proceedings. These committees are provided with outside consultants, usually in the area of group processes and decision-making, and an independent evaluator. The evaluator is responsible for assessing the experiment and for disseminating the results through business and labor publications. The committee is usually divided into standing committees and ad hoc project committees, but the management of the entire experiment is the responsibility of the whole local labor-management committee. The entire design is presented in Figure 1.[19]

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The quality of work movement is still in its infancy, and it is difficult at this point to chart which direction it will take. Mills feels strongly that the movement is "unlike the superficial and fleeting fascination with the 'human relations' movement." He argues that "this (movement) has every appearance of coming from a significant change in management philosophy that is expressing itself in permanent alterations in corporate structure."[20] It has received substantial financial support from such organizations as the Ford Foundation and the Department of Commerce. Since the early seventies at least thirty regional and state organizations have emerged to pro-

vide promotion, educational and consulting services designed to promote labor-management cooperation and the quality of work life. The Labor-Management Cooperation Act of 1978 specifically authorizes the Federal Mediation and Conciliation Service to engage in activities which facilitate creation, operation, and support of labor-management committees on plant, industry and community levels.

## EMERGING PATTERNS OF BUSINESS-SOCIETY RELATIONS

While the division of labor and the resulting interdependencies were laying the groundwork for new norms within the workplace, growing interdependence among corporations and between corporations and the communities in which they operated was setting the stage for analogous changes in expectations concerning the proper role of business and society. During the following decades, prescriptions which assumed independence and mandated competition began to give way to prescriptions which recognized growing interdependence.

### Increasing Visibility of the Interdependence between Business and Society

The social costs of business represent perhaps the most important aspect of increasing interdependence between business and society. These are real costs of production which are not borne directly by the producer or by the consumer, such as air and water pollution. Karl Kapp traces the emergence of social costs to the belief in market mechanisms as means for channelling corporate behavior in the public interest. He argues that profit constraints oblige firms to reduce price without sacrificing quality. One way to do this is to export some of the production costs onto third parties. Costs such as those for employee health and well-being, environmental protection, and the conservation of non-renewable resources will not willingly be borne by the producer if to do so will result in increased price or lower profit and business volume.[21] It is not necessary to presume corporate greed, only the need to survive. The firm which absorbs these costs will quickly be priced out of the market.

The only lasting solution to the problem of social costs, therefore, may be to reduce our reliance on purely market mechanisms of control.

Problems associated with complete reliance on market mechanisms and increasing social costs were recognized long ago by far-sighted economists, such a John Clark, who accused many businessmen of "blind individualism" and proposed a system of public accounting, since "industry is essentially a matter of public concern...(and) the stake which the public has in its processes is not adequately protected by the safeguards which individualism affords."[22] Such concern, however, was not limited to those outside the business community. In fact, businessmen were among the first to recognize the altering state of affairs. Owen Young, former General Electric Chairman, criticized his fellow businessmen for "rampant individualism." Alfred Sloan, former General Motors Chairman, asserted that "...the enormous scale upon which business is done (had) not only changed the methods of industrial management, but it (had) brought about an entirely new conception of the relation of businessmen to the public."[23] Like early union organizers, however, these pioneers lacked sufficient leverage among their colleagues and often expressed frustration at the inability or unwillingness of their colleagues to act in their own long-term collective interest.

The new conception invariably emphasized voluntary cooperation and accommodation, and recognized that the responsibility of business is to serve customers, employees, and the society at large as well as shareholders. Francis X. Sutton labeled this emerging perspective the "managerial ideology."[24] Its fundamental tenets are: 1) profit seeking is compatible with but subordinate to the goal of social welfare, 2) the well-being of the organization rather than of the owner should be the central focus of concern, 3) managers are professionals who must mediate among various interest groups, 4) big business is made necessary by national markets and national demand, and 5) some government regulation is needed to moderate extreme fluctuations in the business cycle.[25] Monsen and Cannon summarized the new view as follows:

> ...it deemphasizes the traditional forces of supply and demand as determining prices in the competitive market and stresses more the

> composite group decision making of government, business, labor, and the public consumer. It argues that management is a trustee who serves the interest of all groups, taking account of more than just the concern of his own stockholders for profits.[26]

A frequent theme of those holding the managerial perspective, reminiscent of the voluntarism which characterized the human relations approach to securing cooperation in collective production systems, is that the interests of business and the interests of society are compatible, at least in the long run. Paul Hoffman, while president of Studebaker, stated that it was "good business to be human and...decency pays dividends." Frank Abrams, once chairman of Standard Oil of New Jersey, asserted that the long-term interests of shareholders cannot run counter to the long-term interests of the American people." Donaldson Brown, when an executive for DuPont and General Motors, noted "...the absolute interdependence between the welfare of business and the common welfare of society." Finally, in an often misquoted statement, Charles Wilson testified in 1953 that "...what is good for our country is good for General Motors and vice versa."[27]

More recently, Henry Ford II has argued that "improving the quality of society--investing in better employees and customers for tomorrow--is nothing more than another step in the evolutionary process of taking a more far-sighted view of return on investment."[28] Ford has been counseling his fellow businessmen to "...stop thinking about the pursuit of profit and the pursuit of social values as separate and competing business goals...start thinking about changes in public values as opportunities to profit by serving new demands."[29] Many of Ford's colleagues appear to have been listening. Fred Allen, Chairman of Pitney-Bowes, for example, has argued that "...this era of growing interdependence should counsel us to re-examine all fundamental levels of the free-enterprise system. As businessmen, we must learn to weigh short-term opportunities against long-term possibilities...."[30] The chorus could go on and on. Once it is accepted, the idea that there is an identity between business and societal goals suggests that the primary problem associated with reconciling them involves measure-

ment. Once means become available for determining long-term business and societal costs and benefits, more responsible and profitable business behavior will result.[31]

The Limits of Voluntary Cooperation and the Necessity of Coercion

The interests of the business community and those of society as a whole may indeed be compatible in the long run. It must be recognized, however, that the business community is not a coherent social organization, but a loosely-coupled aggregation of business people whose interests have traditionally been viewed as being incompatible, at least within industries or markets. Consequently, there has been little leverage available to constrain "free riders," businesspersons who would prefer that their colleagues absorb social costs while they participate in the benefits of an improved business climate. The traditional view, backed up by legislation and legal precedent which constrains cooperation, is still held by many businesspeople. There is little reason to expect individual competing firms to absorb costs for social welfare when they can expect to realize the social benefits (e.g., a clean environment, public good-will, etc.) without assuming the costs. In addition, they will gain a competitive advantage, because they will be able to charge less for the same quality product. Voluntary cooperation, therefore, is not likely to be forthcoming in sufficient amounts to reconcile short-term tensions between the interests of business and the interests of society. What may be needed, therefore, are effective norms of association which function to enforce the norm of reciprocity through the legitimate application of coercion within the business community. Such norms will be particularly critical to the extent that deregulation continues to undermine the only source of legitimate coercion currently operating-those administered under governmental auspices

There is mounting evidence documenting the inadequacy of relying solely on corporate voluntarism. In addition to the frustrations expressed by socially-minded executives such as those noted above, social programs sponsored by the business community have experienced considerable difficulty. In New York, Minneapolis, and Los Angeles, for example, coalitions of businessmen whose concerns were mobilized by the urban unrest of the late sixties have fallen into disarray, often because of internal squabbling. The

National Alliance of Businessmen has had little success in attracting small and medium-sized employers. Many local groups such as Boston's Opportunities Industrialization Center and The New Detroit Committee have been plagued by financial problems.[32]

More telling, perhaps, is the record of corporate philanthropy. Since 1935 firms have been allowed tax relief deductions of up to five percent of their net income for charitable purposes. Recently, the Commission on Private Philanthropy and Public Needs has estimated corporate contributions at one percent of net income. Moreover, the report states that most companies do little or no giving, and only six percent made contributions over $500 during the period under study. Nearly half of all contributions came from fewer than 1,000 companies. The amounts which could be made available are not small. Philip Blumberg has estimated that each one percent of pre-tax corporate net income represents philanthropic support equivalent to the creation of five new Ford foundations.[33] Despite this potential, and despite increasing realization that the public image of business is in decline, corporate giving remains considerably below the legal limit. The Commission concluded it was ironic that

> ...the business community, which has so often expressed its wariness of Washington and the growing size of government, should fall so short of legal limits in helping select and support public beneficial programs outside of government.[34]

It is ironic, but understandable. One does not have to conjure up images of greedy rapacious businessmen to explain it. Through significant giving, all but the largest and most financially secure corporations could jeopardize their market position. They also could become vulnerable to take-over bids.[35] Moreover, they do not have—and currently are constrained from developing--the kinds of informal social and economic sanctions which might allow them to discipline themselves. As was the case with "human relations" and the need to cultivate cooperation between employees and management inside the corporation, means for administering coercion may be required if significant cooperation is to be forthcoming.

Government Regulation: the Emergence of Norms of Resistance

Currently, the locus of coercive force increasingly lies with federal, state, and local governments. It has been a potent force and has provided considerable leverage for the managerial perspective. As noted by the Committee for Economic Development,

> ...there is the positive appeal to the corporation's greater opportunities to grow and profit in a healthy, prosperous, and well-functioning society. And there is the negative threat of increasingly onerous compulsion and harrassment if it does not do its part in helping create such a society.[36]

Increasing government regulation has been pervasive. Murray Weidenbaum likened it to a second managerial revolution. The first revolution was characterized by managers wresting control of the corporation from their owners. The second revolution was characterized by a shift in the locus of control from professional managers to government bureaucrats.[37]

The imposition of externally applied rules and regulations, however, has not secured the degree of cooperation needed to effectively manage the interdependencies between business and society. Like the coercive directives issued by managers to control and coordinate activities in collective production systems earlier in the century, directives issued by government provided an incentive for the creation of informal norms directing executives to resist and render the external controls ineffective. Such norms have long been a fact of life in the Soviet Union.[38] They have begun emerge here, where the rules of business ethics are developed and maintained more independently of the legal and political systems.[39]

The proliferation of government constraints nas been met by an expansion of the role of trade associations, business lobbies, and an increasing business presence in Washington. Organizations such as the Council of Defense Space Industry Associations were formed to coordinate lobbying efforts. The National

Association of Manufacturers moved its offices from New York to Washington and has joined forces with the Chamber of Commerce of the United States. These organizations have worked with the Business Roundtable, the Public Relations Society of America, the Young Presidents Organization, and others to form the Committee on Business Overview, A group designed to defend the business community from political assaults.[40] The increasing political clout of such groups is very difficult to deny, given the nature of both the budget and the tax legislation passed during the last few months.

## HOW TO MANAGE BUSINESS-SOCIETY RELATIONS: LEARNING FROM OUR EXPERIENCE MANAGING LABOR-MANAGEMENT RELATIONS

The history of labor-management relations, since before the turn of the century, may be characterized as a search for on-going cooperation and accomodation required by collective production systems. By the 1930's it had become evident that managerial discretion was limited as the primary device for securing coordination and control. The human relationists sought to generate a cooperative spirit by establishing the means by which more equitable exchange relationships could emerge. Purely voluntary exchange, however, proved to be of limited utility. The interests of labor and those of management simply weren't sufficiently compatible over the relatively short time periods during which cooperation was required. Consequently, norms of association emerged against the backdrop of ever present threats to strike. These norms, however, presume a degree of incompatibility between labor and management and have failed to secure the degree of cooperation required. Labor productivity continues to fall--or fails to increase--and calls for new patterns abound. The quality of work movement reflects one such call. By channelling labor and management initiatives through quality of work committees, this movement may prove to be the next step toward securing the needed degree of mutual effort required by collective production systems.

Relationships between business and society may be seen as a societal response to the same changes that provided the driving force behind evolving patterns of labor-management relations: increasing interdependence among participants. The size and interrelatedness of contemporary collective production systems often seems to contradict individualistic competitive assumptions. Social costs have made the interdependence between the operation of business and the well-being of society increasingly visible. The response, however, was directed toward constraining business behavior through the proliferation of legislated rules and regulations. This has no more resulted in cooperative mutually beneficial relations between business and society than it did between labor and management earlier in the century.

Those who seek to accommodate the needs of business and society by subscribing to the emerging managerial ideology are not likely to find lasting comfort in the belief that the long-term interests of the business community and the welfare of society are identical. The human relations movement was not successful in forging sufficient voluntary cooperation within the workplace for reasons which also apply to the problems currently faced by businesses. Cooperation in sufficient degree simply has not been forthcoming. Unless all competing firms cooperate voluntarily, the short-term costs for those who do seek to accommodate are too great. Government regulations have not resolved the problem. Faced with contradictory demands, businesspersons have responded through legitimate political channels to oppose administered coercion. This will not stimulate the degree of cooperation required; it will only remove the only serious attempt to address the problem.New approaches are urgently needed, therefore, to secure the commitment of all parties in the interest of the well-being of business and society.

Accommodation between labor and management, to the extent that it has been realized, emerged through the development of norms of association which provide legitimacy to the application of constraints designed to enforce the underlying norm of reciprocity.

Neither labor nor management should get something for nothing, and the specific rules which operationalize this norm have been hammered out on the anvil of collective bargaining and arbitration. Government has explicitly and as a matter of policy maintained a third-party role. The courts have refused to hear appeals of arbitration decisions. This has reinforced the ability of the collective bargaining process to resolve differences and to work out accomodations without government or judicial interference. The resulting norms of association are "private," that is, they are generated—and thereby subscribed to—by the parties they affect.

In contrast, relationships between business and society became an increasing concern of government. Federal regulations proliferated, and private sector political involvement designed to protect business interests grew accordingly. Corporation-society relationships were characterized more by advocacy proceedings than by cooperative mutual effort for the common good. Government often was in the role of the plaintiff.

A model based upon our experience in the area of labor-management relations would prescribe "privitization" of the coercive force needed to forge effective norms of association. Only if government maintains a third-party status will it be able to provide the framework needed for accomodation. And only if the norms are generated by those who have to live with them will the needed degree of commitment be forthcoming. Currently, federal regulations are having an effect opposite to that intended. In the Federal regulations had an effect opposite to that intended. They created a rift between the business community and a commitment to socially responsible behavior, such that the businesspeople of tomorrow who seek to be socially responsible may be viewed and sanctioned in a way similar to the "rate buster" within the corporation.[41]

Effective resolution of this problem requires that policy-makers intelligently cultivate effective norms of association within the business community and pre-empt the current and very effective trend toward resistance. This requires privatization of the process

through which such norms emerge in order to stimulate their formation by the people who will be affected. There are several ways this could be accomplished, each with its own set of promises and potential pitfalls, and only a few of these can be touched upon here. However, they all require policy decisions in two areas: first, policies which would provide the institutional framework within which accommodations could occur and, second, policies which would encourage both parties in these negotiations--business and society--to discipline themselves.

Creating Private Institutions for Managing Business-Society Relations: Applying the Principles of Collective Bargaining

Hazel Henderson has provided a preliminary outline of one way to approach the institutionalization of new forms of privatized accommodation between business and society. Some of her proposals involve an almost direct application of the collective bargaining model. She argues for the cultivation of new groups of social advocates composed of consumers, citizens, and stockholders. These groups would provide articulate and informed representation for those who are becoming increasingly alienated and increasingly unable to constructively confront corporate behaviors they find objectionable. Henderson holds up collective bargaining, with its emphasis on seeking areas of common concern and on moving away from confrontation to new levels of communication and understanding, as a model for bringing the new advocates and the corporation together. She also proposes a version of grievance arbitration for the settlement of disputes. Communities would establish mediation boards composed of highly trained citizens serving on-call to settle disputes which would "...otherwise fester, clutter court calenders, or be resolved by power plays."[42]

Henderson's proposals do not go so far as to recommend national legislation; however, such legislation could establish the framework within which community collective bargaining would be nurtured. For example, legislation could establish the criteria by which community groups and members of the business community would be deemed offi-

cial representatives who would conduct obligatory negotiations. The selection of representatives and ensuing negotiations could be initiated by either party. Similarly, legislation could establish the rules which would guide corporations and community groups in the process of contract negotiations and grievance arbitration and settlement. The final stage in such a process could be binding arbitration conducted by an independent professional selected and compensated by both parties in the dispute. The long-term interest of these arbitrators would lie in writing judgments acceptable to all contending parties. Since the decisions would be final—not subject to judicial review--these arbitrators would essentially be codifying norms of association governing business-society relations.

The application of the collective-bargaining model could go a long way toward privatizing the means by which business and the communities in which they operate reach accommodation. The procedures involved, however, are essentially adversary procedures, predicated upon the presumption of a divergence of interest. This has proven to be inadequate for realizing the degree of cooperation of collective production systems, and, while this approach may be helpful there is no reason to expect it to operate any more effectively at the level of business-society relations than it has for labor-management relations. As has been the case for collective production systems, increasing interdependence between businesses and society may require that more cooperative less adversary-oriented approaches be found.

The Quality of Work Movement provides one approach for institutionalizing this sort of cooperation. There is no reason why business firms and community groups cannot form Quality of Community Life Committees analogous to the Quality of Work Life committees currently being formed to manage intra-firm interdependencies. Such committees would provide an important supplement to the arbitration process suggested by the application of the collective bargaining model. A diagrammatic representation of such an approach is presented in Figure 2.

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Insert Figure 2 about here
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Like the quality of Work Life experiments currently being conducted by the National Quality of Work Center, such committees could be organized and maintained on an experimental basis by private organizations. They would bring interdependent factions together and give them access to competent consultation. In addition, outside researchers could be employed to learn from the effort and publish materials which could guide future attempts to increase and maintain high levels of business-community cooperation. Standing committees could identify problem areas and project committees could develop and administer programs designed to alleviate these problems. This sort of framework would go well beyond the less formal efforts operating in many communities today in providing the needed degree of business-community cooperation. Much more work is needed to develop this sort of approach. For example, the appropriate level (e.g., national, regional, state, community) at which to form such a committee would have to be determined. However, establishing such committees would allow for the generation of cooperative relationships among otherwise contending adversaries. It would provide a meaningful private forum which does not now exist for the resolution of disputes and the development of cooperative effort.

Privatizing Coercion and Encouraging Self-Discipline

While institutionalized collective bargaining may provide a useful alternative to the present trend toward increasing government regulation and business resistance, several critical problems are likely to impede the implementation, or even serious consideration, of this proposal. Perhaps the most important of these is the fact that neither businesses nor their counterparts in the community are sufficiently organized to allow for effective negotiations. It is even difficult to delineate boundaries which clearly differentiate these groups. Also, representatives of community interests are likely to be spokespersons for subgroups which may or may not reflect the interests

of the community as a whole. Legislation might deal with this by requiring that such representatives be elected and that a sizeable proportion of the electorate vote in such an election before a negotiating presence can be declared. This would implicitly draw boundaries defining the community along currently operating politically defined lines.

More significant and perhaps less tractible problems arise for businesses. It is not only difficult to define the community of businesses with common interests, but legislation and legal precedent currently constrain cooperation. It enforces competition among business firms operating in the same market. While it may be possible to encourage cooperation among non-competing firms, significant legal change will be required to allow organizations operating in the same markets to coordinate their activities sufficiently to allow for truly collective bargaining with the community or communities in which they operate.

The suggestion of business-community collective bargaining, therefore, implicitly suggests a sweeping reappraisal of the costs and benefits associated with sole reliance upon competitive markets as the means for aligning business activities with societal interests. Americans generally believe strongly that business competition provides important safeguards and that allowing cooperation may undermine this mechanism. There also will be those who also feel that significant business cooperation will remove public policy from public control.[43] Nevertheless, new ways must be found to more effectively harness private organizations in the public interest, given the formation of norms of resistance in the business community, and the effectiveness of this community in opposing administered coercion.

Despite the frequent assumption to the contrary, it is not always clear that allowing for greater cooperation among even competing firms will necessarily reduce societal well-being. For example, industries characterized by a high degree of market concentration show less than average price increases during periods of greater than

average prosperity.[44] The life insurance industry, characterized by high to moderate concentration, organized member firms to pledge two billion dollars to help rebuild inner cities after the events of the late sixties.[45] It is quite possible that the informal controls and the ability to exercise sanctions which market concentration provides are, in part, responsible for these results. The National Alliance of Businessmen seems to be more successful when a few large employers dominate the community and therefore provide the means for effective control. NAB goals are less frequently realized when the business community is diffuse and loosely structured.[46]

It is not even clear that overtly illegal price cooperation always compromises the public interest. Several of those involved in the "incredible electrical conspiracy" pointed out that the nation's defense capacity depended upon the health of their industry. Their activities, though illegal, were, they argued, acts of self-sacrifice in the public interest.[47] The industry was, in fact, plagued by overcapacity and, without mechanisms for allocating contracts among the firms involved, many may well have failed. The resulting decline in the capacity of the country to rapidly increase its generating capacity may well have compromised our defense capability.

If possible benefits of allowing business cooperation have been overlooked in the current discussion, so have been the costs of insisting upon competition. For example, in the 1960's a coordinated industry-wide assault was launched to determine the optimum methods for emission control in the Los Angeles area. Because of antitrust objections, however, exchange of necessary but confidential technical data was prohibited among firms competing in the emission control market. In another case, utility companies were prvented from requiring safety inspections for industrial customers, because such action constituted restraint of trade.[48] Yet, precedent established in 1949 declares that "violations of antitrust law (can) not be defended on the grounds that a particular accused combination would not injure but would actu-

ally help manufacturers, laborers, retailers, consumers, or the public in general."[49] It is possible that such "policy by precedent" may be a short-sighted response to contemporary societal and business needs.

A systemmatic reassessment of the costs and benefits of sole reliance on competitive forces, given new patterns of interdependence, is, we believe, justified. There of course will be substantial areas in which cooperation will not serve societal interests. Formal codes for corporate conduct, for example, frequently include prohibitions against cutthroat competition, competition which could lead to lower prices. Moreover, corporate behavior, justified as socially responsible, may obscure other less socially desirable behavior. U.S. Steel "voluntarily" contributed five million dollars to Allegheny county, but justified the gift to stockholders as pre-empting a significant tax increase.[50] Such examples serve to underscore the fact that societal and corporate interests are not identical and that it is not always obvious where whose interests lie. The key issue, however, is to determine how to manage such divergencies and overlaps of interest. The proposal for collective bargaining suggests that they could be dealt with through a privatized arbitration process on a case-by-case basis, rather than by legislative mandate.

Introducing the proposed institutions for managing the interdependencies between businesses and society must go hand-in-hand with relaxing or eliminating the constraints which currently limit cooperation among firms. More than this, however, is needed. If privatized norms of association are to be effective, firms must be given the institutional means for disciplining themselves. It is not sufficient simply to allow firms to cooperate in the public interest. They must be encouraged to do so by those who will be significantly affected, and policy-makers should assess the utility of creating means by which beneficial constraints can operate. For example, corporations may be allowed to sue each other for violation of their amenity rights.[51] An increasingly important amenity in the business community is a healthy public image of the

business enterprise. Firms which, in the judgment of other firms, damage this image could be made vulnerable to such suits. Other structures, often currently viewed with suspicion, may be called upon to encourage compliance of individual firms. For example, leading firms in concentrated industries could be called upon to exercise social discipline just as they now often exercise price discipline. Interlocking directorates, executive transfers across firms, and the critical position of financial organizations in corporate networks all represent currently underutilized possibilities for increasing interorganizational coordination.

Such policies would represent a substantial movement away from past practices. It may be a bit frightening to significantly reduce our reliance on market mechanisms. However, if new ways are to be found, such as the application of collective bargaining and quality of work life models, it is essential to carefully consider such changes. It is not reasonable to expect voluntary cooperation, especially when rules of compliance are applied externally. Such cooperation was not forthcoming from the shop floor during the earlier decades of this century, and it is not currently forthcoming from businesses. It also is not reasonable to expect business self-discipline when firms in the same markets are legally restricted from cooperating and when possible inter-market mechanisms of private control are viewed with distrust and suspicion. If collective bargaining between business and society is to be considered seriously, such consideration must go hand-in-hand with proposals favoring rather than restricting the degree of organization allowed in the business community.

Whichever new approaches are generated, they must be evaluated against the current trend of effective corporate resistance to government regulation. As Kingman Brewster has noted, "The public red tape of bureaucracy and the private red tape of litigatory obstruction are an unhappy price to pay in order to harness private initiative to the public interest...."[52] It is a price which may not have to be paid. Through creative policy-making, it may be possible to find a better way. In this paper we have suggested that our experience managing human relations in col-

lective production systems may provide a direction for working our way out of the current situation. The ideas are only meant to be suggestive. There are many other possibilities and the ones presented here need much more development before they can be considered complete policy proposals. Some new solutions are, however, required if we are to move toward the more cooperative society we must become. By finding workable designs for structuring business-society relationships, analysts and policy makers will be strengthening the bonds between societies, corporations, and individual citizens, bonds which currently constitute one of the most serious social and economic problems of contemporary society.

Figure 1. A Structural Design for Labor-Management Quality-of-Work-Life Projects

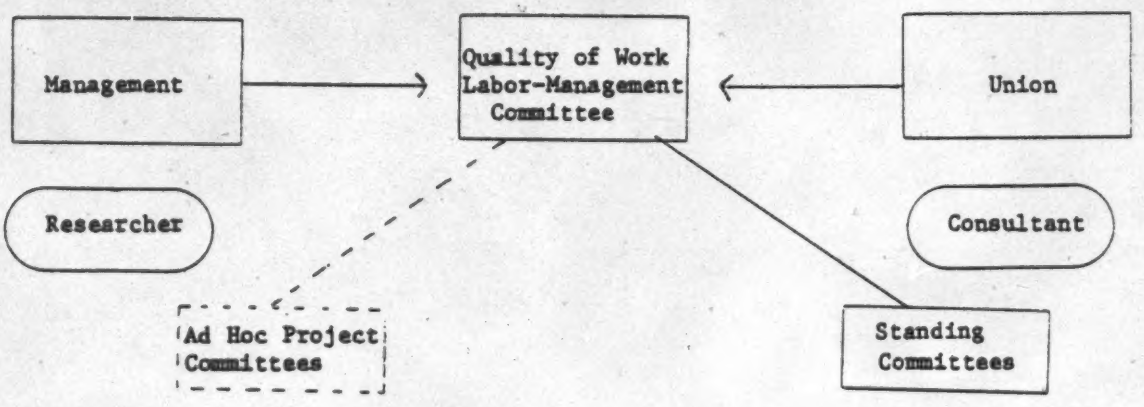
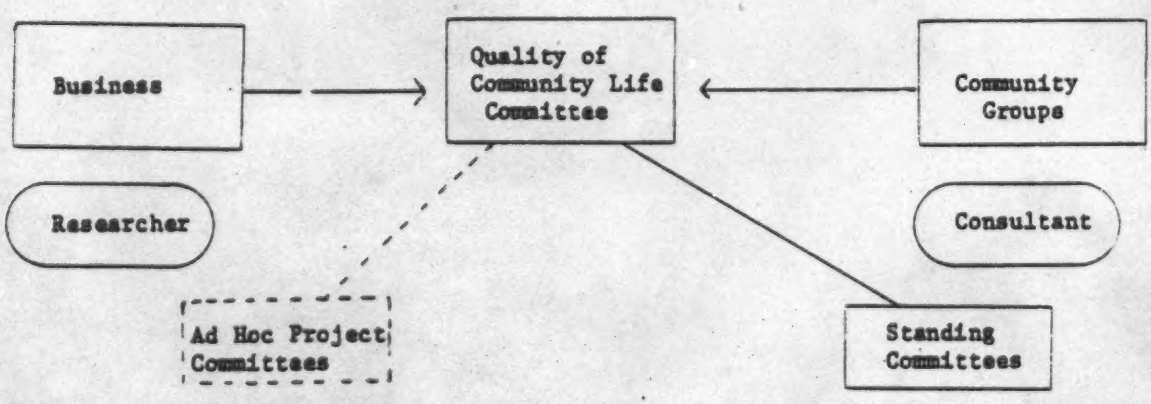



Figure 2. A Structural Design for Business-Community Quality-of-Community Life Projects



Footnotes

1. Milton Friedman has been an articulate and indefatigable advocate of the profit-based orientation. See his Capitalism and Freedom, University of Chicago Press, 1962 and "The Social Responsibility of Business is to Increase Its Profits," New York Times Magazine, September 13, 1970, pp. 32-33, 122-126. A useful summary of the two competing perspectives is available in Keith Davis, "The Case For and Against Business Assumption of Social Responsibilities," Academy of Management Journal, 16:312-322.

2. The full text of Murphy's remarks are available in "Businessman, Heal Thyself," Newsweek, December 20, 1976, page 11.

3. Frederick W. Taylor, The Principles of Scientific Management, Harper, 1911, page 8.

4. See Allan Nevins, Study in Power, Scribner, 1953, page 402.

5. See Russell W. Davenport, U.S.A., The Permanent Revolution, Prentice-Hall, 1951.

6. See George C. Lodge's highly readable description of this dilemma in "Business and the Changing Society," Harvard Business Review, 52 (March-April): 59-72, 1974. Also see John W. Ward, "The Ideal of Individualism and the Reality of Organization," in Earl F. Cheit (Ed.), The Business Establishment, Wiley, 1964, pages 37-76.

7. Eli Ginzberg and Ivar E. Berg, Democratic Values and the Rights of Management, Columbia University Press, 1963, page 193.

8. The first documentation of productivity norms was provided by Fritz J. Roethlisberger and William J. Dickson in their extensive description of the telephone bank wiring room in Chicago's Hawthorne Plant of Western Electric. See their book, Management and the Worker, Harvard University Press, 1939. Another well-known analysis is Donald F. Roy's "Quota Restriction and Goldbricking in a Machine Shop," American Journal of Sociology, 57:427-442, 1952.

9. Chester I. Barnard, The Functions of the Executive, Harvard University Press, 1938.

10. Stanley E. Seashore, Group Cohesiveness in the Industrial Work Group. Institute for Social Research, Ann Arbor, Michigan, 1954.

11. This charge was one of the primary points made by William H. Whyte's popular book, The Organization Man, Simon and Schuster, 1956.

12. Elton Mayo, often considered to be the father of the human relations movement, seems to have believed that these interests were identical (see The Social Problems of an Industrial Civilization, Harvard University Graduate School of Business Administration, 1945). Perhaps the most prominent spokesman for this movement, Rensis Likert, argued that these interests were reconcilable through the application of open and supportive management styles (New Patterns of Management, McGraw-Hill, 1961 and The Human Organization, McGraw-Hill, 1967). Chris Argyris argued that divergent interests could be reconciled to the extent that jobs and social relationships at work were designed to meet employees' personal and social needs (Integrating the Individual and the Organization, Wiley, 1964).

13. One prominent critic of the human relations movement. Philip Selznick, has taken its proponents to task for failing to recognize that conflicts between the goals of individuals and those of the organization are an unavoidable part of industrial life. His most recent book, Law, Society, and Industrial Justice, Russell Sage, 1969, represents one of the few attempts to go beyond voluntarism in the analysis of emerging labor-management accommodation and to begin to understand the difficult problems of reconciling truly incompatible interests.

14. A concise exposition of this thesis can be found in Mancur Olson, The Logic of Collective Action, Harvard University Press, 1971.

15. See Alvin W. Gouldner, "The Norm of Reciprocity," American Sociological Review, 25:161-178, 1960.

16. These evolving norms of association, as well as others, are more fully detailed in Philip Selznick, Ibid., pp. 164ff. Additional material describing the emergence of such norms through the process of grievance arbitration can be found in Ginzberg and Berg, Ibid.

17. The Commission set up experiments designed to find new ways for increasing labor-management cooperation at work. One experiment took place in a mine in Pennsylvania and is described in Paul S. Goodman, Assessing Organizational Change: The Rushton Quality of Work Experiment, Wiley-Interscience, 1979. Related experiments have been described by Robert H. Guest (Quality of Work Life - Learning from Tarrytown," Harvard Business Review, 57(#4):26-87, 1979) and by Barry A. Macy, Gerald E. Ledford and Edward E. Lawler III (The Bolivar Quality of Work Experiment, Wiley-Interscience, forthcoming).

18. These experiments have involved The Tennessee Valley Authority, The City of San Diego, and several private organizations.

19. The form of this graphic display of the quality of work design was adapted from David A. Nadler, "Consulting with Labor and Management: Some Learnings from Quality-of-Work-Life Projects," in W. Warner Burke (ed.), The Cutting Edge: Current Theory and Practice in Organization Development, University Associates, Inc., 1978.

20. Ted Mills, "Human Resources - Why the New Concern?" Harvard Business Review, 53 (#2): 120-134, 1975.

21. Karl W. Kapp, The Social Costs of Private Enterprise, Schocken Books, 1971. Kapp first published his thesis in 1950, predicting then that within twenty years social costs would become a major social and economic issue.

22. See Morrell Heald, The Social Responsibilities of Business, Company and Community, The Press of Case Western Reserve University, 1970, page 107.

23. Morrell Heald, Ibid., page 85.

24. Francis X. Sutton, Seymour E. Harris, Carl Kaysen, and James Tobin, The American Business Creed, Harvard University Press, 1956.

25. Joseph R. Morgan, Jr., Modern American Capitalism, Houghton-Mifflin, 1963.

26. Joseph R. Monsen and Mark W. Cannon, The Makers of Public Policy, McGraw-Hill, 1965, page 47.

27. Morrell Heald, Ibid.

28. See Philip B. Osborne, The War That Business Must Win, McGraw-Hill, 1970.

29. Henry Ford, II, The Human Environment and Business, Weybright and Talley, 1970, pages 55 & 56.

30. Fred Allen, "Corporate Conduct," Business Today, 14 (Winter), page 25.

31. A great deal of effort has been expended in the search for such measures. Social program budgeting, social accounting, and social cost-benefit analysis are but a few of the development techniques. Reviews and proposals are plentiful, such as those of S. Prakash Sethi ("Getting a Handle on the Social Audit," Business and Society Review Innovation, 4:31-38, 1972), Archie B. Carroll and George W. Beiler ("Landmarks in the Evolution of the Social Audit," Academy of Management Journal, 18:589-599, 1975), and Meinolf Dierkes and Raymond A. Bauer (Corporate Social Accounting, Praeger, 1973). Almost all of the current methods and proposals, however, presume that socially responsible activities will enhance long-run profits (see, Raymond A. Bauer and Dan H. Fenn, Jr., The Corporate Social Audit, Russell Sage Foundation, 1972, page 62).

32. See Philip B. Osborne, Ibid., pages 6 & 7.

33. Phillip I. Blumberg, "Corporate Responsibility and the Employee's Duty of Loyalty and Obedience: A Preliminary Enquiry," in Dow Votaw and S. Prakash Sethi (Eds.), The Corporate Dilemma, Prentice-Hall, 1973, page 61.

34. Commission on Private Philanthropy and Public Needs, Giving in America, Commission on Private Philanthropy and Public Needs, 1975, page 156.

35. See Henry G. Manne and Henry C. Wallich, The Modern Corporation and Social Responsibility, American Enterprise Institute for Public Policy Research, 1972.

36. Committee for Economic Development, Social Responsibilities of Business Corporations, Committee for Economic Development, 1971, page 29. James W. McKie ("Changing Views," in J. W. McKie (Ed.), Social Responsibility and the Business Predicament, Brookings Institution, 1974), has properly called this document "almost an official manifesto of a new business ethic."

37. Murray L. Weidenbaum, Business, Government, and the Public, Prentice-Hall, 1977, page 285.

38. Joseph S. Berliner's classic work, Factory and Manager in the U.S.S.R., Harvard University Press, 1957, is filled with detailed examples of systemmatic subversion of externally applied rules, especially falsification of reporting (Ch. 10).

39. Of those convicted in the electric company price-fixing conspiracy, only those who had worked for General Electric were not welcomed back by their previous employers (see Richard A. Smith, "The Incredible Electrical Conspiracy," Fortune, 63 (#4): pages 132ff and 63 (#5): pages 181ff). Further evidence of

the independence of business ethics from legally defensible behavior is provided by Edwin H. Sutherland, who concluded that "...a violation of the legal code is not necessarily a violation of the business code." (White Collar Crime, Dryden Press, 1949, page 219).

40. See Murray L. Weidenbaum, Ibid., pages 262ff.

41. Theo Nichols (Ownership, Control and Ideology, Allen and Unwin, 1969) reports a case where such social pressure actually occurred. Board members of a firm which was particularly committed to the doctrine of social responsibility were, for this reason, viewed as outcasts by managers of other firms.

42. Hazel Henderson, "Toward Managing Social Conflict," Harvard Business Review, 49 (#3):82-90.

43. See, for example, Theodore Levitt, "The Dangers of Social Responsibility," Harvard Business Review, 36 (#5):41-50.

44. Frederic M. Scherer, Industrial Market Structure and Economic Performance, Rand McNally, 1970, page 303.

45. George Church, "The Executives as Social Activists," Time, 96 (#3):1970, pages 62-68.

46. Business Week, "Hard-Core Jobless Get a Friend at the Top," #2062 (March 8), 1969, pages 62-71.

47. Richard A. Smith, Ibid.

48. Murray L. Weidenbaum, Ibid., page 157.

49. Gibony v. Empire Storage and Ice Company, 375 U.S. 490, 496, 1949.

50. Marvin A. Chirelstein, "Corporate Law Reform," in James W. McKie (Ed.), Social Responsibility and the Business Predicament, Brookings Institution, 1974, pages 41-77.

51. The possibility of permitting such suits is discussed in Edward J. Mishan, Technology and Growth, Praeger, 1969.

52. See Kingman Brewster Jr.'s Introduction to Henry Ford II, The Human Environment and Business, Weybright and Talley, 1970.

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